

New Jersey Public Broadcasting Authority

Audit Committee Meeting

November 14, 2011 – 10:00 AM

**New Jersey Public Broadcasting Authority
4th Floor Conference Room
25 S. Stockton, Trenton, N.J. 08608**

MINUTES

**1. CALL TO ORDER, OPEN PUBLIC MEETING NOTICE, Anthony Della Pelle,
Chair, NJPBA**

Chair of the Audit Committee, Mr. Anthony Della Pelle, called the meeting to order at 10:00 a.m. Chair Della Pelle read the Open Public Meetings Act statement as follows: In accordance with the provisions of the Open Public Meetings Act of the State of New Jersey, notice of this meeting has been filed with the Office of the Secretary of State, has been posted on the appropriate bulletin boards maintained for such purposes by the Authority, and distributed by press release to two daily newspapers in New Jersey. Notice was made in advance of this meeting.

Chair Della Pelle then requested a roll call. Those present and participating at the meeting were Anthony Della Pelle, Chair, Guy Tassi, Member of the Audit Committee, Christopher Mathews, Member of the Audit Committee, Jill Ann Murphy, Mercadien P.C., Sherise Ritter, Mercadien, P.C. and Deputy Attorney General Kevin K. Mistry. Also present was Nichol R. Gee (*taking minutes*).

2. APPROVAL OF MINUTES – AUGUST 10, 2011 MEETING

Chair Della Pelle requested a motion to approve the minutes of the August 10, 2011 Audit Committee meeting. Mr. Tassi made a motion to approve the minutes of the August 10, 2011 Audit Committee meeting. Mr. Matthews seconded the motion. The motion passed unanimously.

3. REVIEW NJPBA AUDIT COMPILED BY THE MERCADIEN GROUP

Chair Della Pelle asked Ms. Ritter to provide an overview of Mercadien's Report to the Audit Committee ("Report"). Ms. Ritter explained that Mercadien (also referred to as the "auditors" herein) was retained by the New Jersey Public Broadcasting Authority ("Authority" or "NJPBA") to conduct the independent audit of the financial statements of the Authority. The documents presented are draft versions for the Audit Committee's review to ensure that the Audit Committee is satisfied with the disclosures. Ms. Ritter stressed that the disclosures were management's disclosures to the auditors.

Ms. Ritter stated that the Report is an umbrella document. She reviewed the required communications section of the Report. Ms. Ritter stated that this year there were no changes in accounting standards and no unusual transactions. She explained the three primary accounting estimates recorded on page five (5) of the Report: capital assets, functional expenses, and allowance for doubtful accounts. Ms. Ritter stated that the information that NJPBA management provided to the auditors was sufficient to complete the audit. She then turned to page six (6) of the Report and said it was important for the Audit Committee and the NJPBA to understand the level of information that management provided. Ms. Ritter stated that certain adjustments were made solely as a result of the audit. She stated that management provided a trial balance in lieu of a general ledger and several adjustments were necessary.

Ms. Murphy explained the adjustments on page six (6) of the Report. She stated that the most significant adjustment related to the accounting of accrued vacation for the staff that was laid off on July 1, 2011. Ms. Murphy said that management expensed the accrued vacation, however, as of June 30, 2011, the staff was still employed and the funds required to pay for the accrued vacation did not come from the Authority, but rather from the State directly. Ms. Murphy stated that these funds were not expensed in the past, and that this line item needed to be re-classified on the balance sheet as an asset.

Chair Della Pelle asked for clarification on this point. He confirmed with Ms. Murphy that on June 30, 2011, the balance of the accrued vacation time of \$1.1 million was to be paid by the State and not the Authority. Ms. Murphy reiterated that the auditors decreased the expense and recorded the accrued vacation as an asset from the State.

Ms. Murphy also noted two other small adjustments made by the auditors. One adjustment reflected a small difference in the funds due from the State, and the other adjustment reflected a State budget modification. Mr. Tassi asked if these were material changes. Ms. Murphy stated that they were not material changes but that it was necessary to list them so that the Audit Committee would have a clear understanding of the adjustments.

Discussion continued regarding the accounting of the accrued vacation. Chair Della Pelle stated that the adjustments appeared as such due to do the accrued vacation time. Ms. Murphy stated the time was accounted for as an asset on June 30, 2011. Mr. Tassi asked if it would be expensed on July 1, 2011. Ms. Murphy said it was not an expense of the Authority; it has always been recorded as an asset and a liability. Mr. Della Pelle stated that he would like to clarify this point with management.

Ms. Ritter stated that there were no significant issues discussed with management, but there are significant subsequent events in the footnotes of the audit. Ms. Ritter stated that Mercadien did not have any difficulties with NJPBA management and expressed the opinion that this was the quickest and cleanest audit Mercadien had conducted for the Authority. She stated that the staff was helpful and that the Executive Director ensured that everything was proper. Ms. Murphy thanked the staff for good communications.

Ms. Ritter concluded the review of the Report stating that written correspondence between the auditors and management was attached to the Report. She said the arrangement letter and the addendum to the arrangement letter were included and that the representation letter from NJPBA management to Mercadien would also be included so that the Audit Committee could review what management specifically disclosed to the auditors.

Ms. Murphy reviewed the Combining Financial Statements (“Statements”) prepared by Mercadien. She stated that pages one (1) through nine (9) of the Statements contained management’s discussion and analysis. This content was not audited, however, Ms. Murphy said the auditors reviewed this information for consistency with the financial statements and disclosures.

Ms. Murphy reviewed page ten (10) of the Statements and read from paragraph three (3):

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Authority and the FNJPB as of June 30, 2011, and the combined results of their operations and combined statement of cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ms. Murphy stated that there were no issues to report for the GAAP financials.

Ms. Murphy explained the Combining Statement of Net Assets on pages twelve (12) and thirteen (13), noting that the Authority had \$6.8 million in net assets. She stated that while this report is not comparative, the funding from the Corporation for Public Broadcasting was consistent with previous years and the tower rental was higher due to the one-time payment received as a result of the contract between NJPBA and Clearwire.

Ms. Murphy reviewed the Combined Statement of Cash Flows on page fourteen (14) of the Statements. She stated that in the past, program rights were considered assets that were amortized over the period of time for which the rights were granted. Since television operations were now conducted by PMNJ under the Programming and Services Agreement, the assets were expensed.

Ms. Murphy stated that pages fifteen (15) to twenty-two (22) of the Statements contained the footnote disclosures. She reviewed changes in the footnotes relative to previous audits. Ms. Murphy stated that paragraphs three (3) and four (4) on page fifteen (15) discussed the subsequent events changes. She read the paragraphs, as follows:

On December 17, 2010, the purposes of the Authority and the Foundation were decoupled pursuant to the New Jersey Public Broadcasting Transfer Act of 2010. At that time the Authority was moved from being under the “in but not of” Department of the State to the Department of Treasury. The previous board was dismantled and a new Authority board was appointed chaired by the State Treasurer.

On July 1, 2011 a new operator, Public Media NJ, Inc. ("PMNJ"), a New Jersey nonprofit, whose sole member is WLIW, who is a sole member of WNET.org, assumed responsibility for programming which was previously provided by the Authority. As a result the Foundation's mission was revised. The Foundation will now provide fundraising support for New Jersey centric programming through PMNJ instead of the Authority. The Authority, under an operating agreement with PMNJ will turn over all revenues derived from its tower leases, must carry cable rights, and federal funds from CPB to PMNJ.

Ms. Murphy asked Deputy Attorney General Mistry to confirm the validity of those two paragraphs. Deputy Attorney General Mistry stated that was an accurate description of events.

Ms. Murphy stated that footnote "G" discussed the change in accounting for the programming licenses, as previously discussed, and that footnote "F" addressed the operating leases. She said that footnote "L" reiterated the nature of activities of the Authority and discussed the effects of the transition in three paragraphs on page twenty-two (22), including the sale of the radio stations.

Ms. Murphy asked for clarification on whether the radio station sales were complete. Deputy Attorney General Mistry stated that the sale of the radio stations was not yet finalized. He said that the New York Public Radio ("NYPR") sale might close within the week and that the WHYY sale would close in late November or December at the earliest. Ms. Murphy stated that the Statements were written with the understanding that the sales were not yet finalized, but the stations were being operated by NYPR and WHYY at this time. Deputy Attorney General Mistry asked if the Statements would need to be changed if the sale to NYPR was finalized this week. Ms. Murphy stated that if the representation letter was signed by NJPBA management and forwarded to Mercadien on that day (November 14, 2011), then the Report and Statements would be dated for that day and no further changes would need to be made.

Mr. Tassi asked if the assets of the NJPBA now reside with the Department of the Treasury. Deputy Attorney General Mistry stated that the assets reside with the Authority. The Audit Committee briefly discussed the need to address NJPBA assets in the next audit. Deputy Attorney General Mistry confirmed that the work of the Audit Committee would continue in subsequent years.

Ms. Murphy read the final paragraph on page twenty-two (22) of the Statements, "Funding for NJPBA going forward will be incorporated into the New Jersey State budget. It is estimated that for Fiscal Year 2012, that amount will be approximately \$2,000,000." Ms. Murphy stated that this sum is not reflected in the line item budget of the State and that she tried to obtain a definitive document to confirm this information. Ms. Murphy said the minutes of the June 29, 2011 NJPBA Board meeting included a budget, however the minutes have not yet been approved, and therefore she did not have an official document to confirm this sum.

Deputy Attorney General Mistry stated that the \$2,000,000 was a language appropriation and would not be reflected in a line item. He explained that the Legislature can approve language provisions in the annual appropriations act that appropriates funds as necessary and that such

language would either appear in each department's presentation or at the back with the general provisions. Ms. Murphy stated that she had reviewed that language and that Deputy Attorney General Mistry's explanation confirmed that the information in the footnote was correct. Deputy Attorney General Mistry stated that the budget was approved by the NJPBA Board on June 29, 2011. Chair Della Pelle concurred, stating that the NJPBA Board approved the budget resolution and that the language was correct based on what was approved. Brief discussion on this point continued, and Ms. Ritter asked Ms. Murphy to look for the language provisions. Ms. Murphy stated that she had already reviewed the provisions but wanted clarification, which Deputy Attorney General Mistry had provided.

Ms. Murphy turned to page twenty-three (23) of the Statements to review comparative expenses. She stated that the expenses decreased slightly. Ms. Ritter stated that payroll and benefits were expenses of the Authority, but some were paid by the Authority and some were paid directly by the State. Those paid by the State were accounted for as in-kind contributions.

Ms. Murphy stated that page twenty-four (24) identified the same finding as prior years. She said the auditors were provided with a trial balance prepared in an MS Excel spreadsheet from data in the State system rather than in a general ledger. She said this created the need for the adjustments that were made because there were no checks and balances as in a general ledger system. Ms. Ritter suggested that moving to a general ledger could be simple; the Authority could use QuickBooks if they wanted to. Mr. Tassi asked if the Authority had the personnel to accomplish this. Ms. Ritter said the Authority is already using QuickBooks for towers and contracts. Mr. Tassi asked if the Authority could move to a general ledger system, and Ms. Ritter said that the auditors have raised this issue every year.

Chair Della Pelle referred to page thirteen (13), stating that the Combining Statement of Support, Revenues and Expenses, and Changes in Net Assets showed that the Authority ran at a deficit of \$13 million for the year ending June 30, 2011. Ms. Murphy confirmed that that was a correct understanding of the Statement, without the State appropriation. Chair Della Pelle stated that the Transfer Act was enacted in order to end the State's ownership of media and to reduce the cost to taxpayers. Chair Della Pelle asked if the \$13 million deficit was the actual cost to the taxpayers. Ms. Murphy noted that there was a change in net assets which was a depreciation expense. Mr. Tassi stated that the real cost therefore was \$12.1 million. Chair Della Pelle asked the auditors if, based on their findings, the cost to the public was \$12.1 million. Ms. Ritter confirmed that figure was correct. Mr. Tassi stated that the Statement showed a State appropriation of \$12.1 million. Chair Della Pelle clarified that the \$12.1 million was the sum that the State actually contributed as a subsidy to the Authority.

Chair Della Pelle thanked the auditors for their work. Ms. Murphy stated that they still had to report to the Corporation for Public Broadcasting ("CPB"). She said they were waiting for CPB to open the website where the auditors would input the data. Chair Della Pelle asked when the Report and Statements would be finalized. Ms. Ritter stated that once Mercadien received the representation letter signed by management, then Mercadien would remove the draft watermark on the Report and Statements and provide finalized copies. Chair Della Pelle confirmed with Ms. Ritter that the Report and Statements would be available to the NJPBA Board.

4. MOTION TO RECOMMEND APPROVAL OF NJPBA AUDIT BY THE NJPBA BOARD OF COMMISSIONERS

Chair Della Pelle requested a motion to recommend approval of the NJPBA Audit by the NJPBA Board of Commissioners. Mr. Tassi made a motion to recommend approval of the NJPBA Audit by the NJPBA Board of Commissioners. Mr. Matthews seconded the motion. The motion passed unanimously.

5. EXECUTIVE SESSION (*IF NECESSARY*)

Chair Della Pelle asked if there was any need to enter into Executive Session. Mr. Tassi asked if everything had been resolved regarding the \$1.9 million appropriated by the State to the Authority. Ms. Murphy said that it was resolved. Mr. Tassi stated that he saw no need to enter into Executive Session then. All Audit Committee Members concurred.

6. OTHER BUSINESS (*IF ANY*)

Chair Della Pelle asked if there was any other business to discuss. No further discussion occurred.

7. ADJOURNMENT

Chair Della Pelle asked for a motion to adjourn the meeting. Mr. Tassi made a motion to adjourn the meeting. Mr. Matthews seconded the motion. The motion was approved unanimously. The meeting adjourned at 10:43 a.m.